

MINUTES OF REGULAR MEETING  
ILLINOIS GAMING BOARD  
JULY 9, 1992  
DES PLAINES, ILLINOIS

A Regular Meeting of the Illinois Gaming Board was held at 10:00 A.M. on July 9, 1992 at the Board's Administrative offices located in Des Plaines, Illinois. The meeting was called pursuant to previous action of the Board in establishing it's Regular Meeting schedule and Notice was duly and timely given to each Board Member and to the general public in conformity with Section 42.02 of the Illinois Open Meetings Act.

The following Board Members were present: William J. Kunkle, Jr., Chairman and Members William J. Chamblin, Jr., J. Thomas Johnson, Robert F. Vickrey and Michael H. Zaransky. Also in attendance were Administrator Morton E. Friedman, Deputy Administrators Joseph Mc Quaid and Marcy L. Wolf; Chief Legal Counsel Donna B. More; other Board staff, the media and the general public.

The meeting was called to order by Chairman William J. Kunkle, Jr. at 10:02 A.M.

The first order of business was a discussion concerning the scope of regulation and regulation of non-gaming suppliers. The Chairman recognized Member Michael Zaransky.

Mr. Zaransky discussed two areas of businesses that currently operate in Illinois as ancillary suppliers to riverboat casinos: tour and junket operators and persons operating schools that train casino personnel. Mr. Zaransky stated that although he knew of no problems existing presently, that he believed the Board should consider licensing those entities to avoid future problems. He noted that testimony before the Chicago gaming hearings had disclosed that some tour operators routinely loaned money to patrons or assessed a separate entry fee for gamblers. The Chairman reviewed the regulatory history of the Board with regard to the licensing of suppliers to the gaming industry and the events unfolding in the state of New Jersey concerning allegations that organized crime had infiltrated the industry through supply of non-gaming services. The Chairman noted that the regulatory scheme adopted in Illinois, placed the responsibility for operators to engage with reputable businesses on the ownership of the enterprise. The Chairman next recognized Administrator Friedman for discussion.

Mr. Friedman stated that while the Board could extend its licensing to non-gaming suppliers, that to do so would increase the cost of business and would serve to shift the responsibility for owners to deal with reputable businesses to the state. He noted that the greater range of licensing desired would dilute the Board's staff resources.

Member Johnson asked the Administrator to clarify that if an owner was doing business with an individual who the Board would not approve of, was the owner the entity to be brought before the Board? Mr. Friedman responded that the owner could have action taken against the license if the owner reasonably had knowledge of who the enterprise was dealing with. Mr. Johnson observed that the Board would be placed in the difficult position of proving whether an owner had reasonable knowledge and, that given the value of an owner's license, the Board could expect significant debate to dissuade the Board from taking a revocation action. Noting that a revocation proceeding could be very costly,

Mr. Johnson stated that under expanded licensing, the licensee would pay the cost for investigations while under the current regulatory structure, the taxpayers of Illinois absorbed the cost of investigation.

Mr. Friedman stated that cost could be directed to the owners in any manner the Board desired and noted that it would be a rare occasion when staff would be called upon to do such an investigation. He suggested that consideration should be given to whether licensing should be expanded to address the rare exception and thereby drive up the cost of conducting business in the state and dilute staff resources.

Mr. Zaransky stated that, in general, he agreed with the Administrator relative to the provider of general services, but that he felt that the Board should study and consider the providers of specialized services such as junkets and training schools. He noted that while the audit process would discover abuses from the generalized services, that he was unsure that the audit would be able to discover abuses in ancillary suppliers. Mr. Friedman responded that the auditors had been instructed to identify any contract which appeared to be in excess of fair market value. Deputy Administrator Wolf stated that additional instructions had been issued to the auditors to compare pricing with other vendors to identify possible rules violations.

Member Vickrey stated that the Board should be concerned with tour and junket operators. He noted that organized gambling or spontaneous gambling aboard buses while in transit would hold down the amounts wagered in riverboat casinos. Mr. Friedman noted that such activity would constitute a criminal offense under Illinois statutes but that the penalty invoked did not provide a deterrent to commission of the offense. Mr. Vickrey suggested that licensing the tour operator could operate as an effective deterrent because holding of the license directed the economic viability of the tour company. Mr. Friedman stated that the possible revocation of an owner's license would act as a greater deterrent. He noted that owners were not about to defy a Board order not to conduct business with a certain individual or organization and that the rules already covered the situation where a contract that called for compensation based on a percentage of gaming would require licensing by the Board.

Mr. Johnson requested that the staff present a report at the next regular meeting concerning the licensing of non-gaming suppliers in Nevada, New Jersey and Iowa and what the impact of licensing of junketeers and casino schools would entail. Mr. Zaransky requested that the presentation include the number of tour and junket operators, whether any are compensated by percentage and the number of casino schools in the state. There was no further discussion.

The next item of business concerned limitation of debt-equity ratios. The Chairman recognized Member Johnson.

Mr. Johnson stated that the issue he wished to discuss with the Board related to the amount of debt that was entered into by owners. He noted that when applications for licensing were first filed, nobody had anticipated the popularity or profitability of riverboat gambling in Illinois. There had been difficulty for investors to invest equity and therefore all investors had incurred substantial amounts of debt. Mr. Johnson stated that he felt the debt to equity ratios were too high which could threaten economic viability of the licensees.

Mr. Johnson requested that the staff review and report to the Board at the next regular meeting on suggested debt to equity ratios which could be required

of licensees to retire debt. He specifically requested that the practices of Nevada and New Jersey be reviewed and that impact on long term leases and tangible personal property be included in the review. Mr. Johnson stated that his concern was whether earnings were being used to retire debt or simply distributed to shareholders while high amounts of debt remained. He noted that in many instances, applicants had significantly altered debt to equity ratios after they had been found preliminarily suitable for licensing, and that the changes had increased the amount of debt, not equity, of the shareholders. There was no further discussion.

The next item of business concerned the regulation of debt offerings. The Chairman recognized Member Zaransky.

Mr. Zaransky discussed a need for regulating debt offerings. He observed that under debt offering structures, the holder of debt instruments could eventually become the owner of the enterprise, which could be an entity that was not licensed by the Board. Mr. Zaransky stated that such a proposed regulation should provide for an exemption for institutional investors, but should apply to individuals acquiring debt instruments who therefor acquire various levels of control over the enterprise.

Mr. Friedman agreed that the issue deserved study and refinement of the rules. He noted that New Jersey had handled the issue through an after-the-fact review and that he felt that approach to be appropriate. Mr. Friedman stated that staff had already begun looking at the issue and would report its findings and recommendations to the Board. There was no further discussion.

The next order of business concerned applicant reporting of progress and revocation of findings of preliminary suitability. The Chairman recognized Member Zaransky.

Mr. Zaransky stated that he would prefer to undertake the discussion during the status reports of applicants.

Without objection, the Chairman moved to the next order of business, status report of applicants. The Chairman first recognized Arch Paddle Boat Company.

Mr. John Janicik, attorney for the applicant and Mr. Jim Edlund appeared on behalf of the applicant. Mr. Janicik reported that Arch Paddle had entered into a purchase agreement for the acquisition of riverboat. The vessel, now named the Casino Queen, has a passenger capacity of 3,000 persons with 1200 gaming positions and should be delivered in February, 1993. It is anticipated that the Casino Queen will be operational in March, 1993. He also reported that discussions with the Southwestern Illinois Development Authority for the leasing of property for parking were entering their final stages. The Chairman called for discussion and recognized Member Vickrey.

Mr. Vickrey asked questions concerning the construction schedule. Mr. Edlund responded that construction on shore facilities should commence in September 1992. Mr. Janicik added information concerning construction of the Metro-Link in St. Louis which could be constructed in 1993 depending on the acquisition of funds by Missouri officials. There was no further discussion.

The Chairman next recognized Aurora Riverboats Incorporated.

Mr. William Weidner, President of Pratt Hotel Corporation and Mr. John Janicik, Attorney for the applicant appeared. Mr. Weidner told the Board of the physical progress of the shore based facilities noting that foundations were being poured that day. He described the debt offering financial plan that had been secured and approved by New Jersey officials. He told the Board that the project, costing \$60 million, was on target for a June 15, 1993 operational start date. Mr. Weidner continued to describe, in detail, the financial plan and structure and listed the public investors who had purchased the debt offerings. The Chairman called for discussion.

Mr. Zaransky and Mr. Johnson asked questions concerning the financial structuring and the protection for funding of the Aurora project. Mr. Weidner responded that the funds for the project were being held in escrow with Chicago Title acting as agent with the money being invested by Continental Bank. Mr. Weidner stated that the money was the assets of Aurora Riverboat Incorporated and was guaranteed by the parent company, Pratt Hotel Corporation, through a first mortgage debt instrument. Mr. Weidner acknowledged that the money was held as debt to Aurora Riverboats Incorporated. Mr. Johnson asked questions concerning debt retirement and asked that the applicant supply the Board with a plan for debt retirement of Aurora Riverboats Incorporated.

Mr. Vickrey asked questions concerning lack of progress of constructing the facilities in Aurora. Mr. Weidner responded that the change in the financial structuring was the primary cause for delay. He noted, however, that while pouring of the shore facility foundation was occurring that day, unforeseen events could delay an operational start date beyond the June 15, 1993 timetable that the enterprise was anticipating. Mr. Zaransky noted that the Board was reviewing more applications than were licenses available, and that Aurora Riverboats Incorporated was reserving itself a license through delay to the exclusion of other applicants. Mr. Weidner responded that Aurora Riverboats Incorporated's aggressive plans would not have allowed the enterprise to become operational within one year, and that loss of the original financial plan furthered delay from their original target date of early Spring 1993. There was no further discussion.

The Board recessed its proceedings at 11:58 A.M.

The Illinois Gaming Board reconvened at 12:12 P.M. Chairman Kunkle was called away from the meeting necessitating the selection of a Chairman Pro tempore. Member Zaransky moved that Member Johnson serve as Chairman Pro tempore for the purposes of this meeting. Member Vickrey seconded the motion. The motion was approved unanimously by voice vote.

The Board resumed hearing status reports from applicants found preliminarily suitable for licensing. The Chairman recognized Des Plaines Development Corporation.

Mr. Tim Wilmott appeared on behalf of Harrah's Casino Cruises, Joliet. He was joined by Mr. John Mezera, City Manager, City of Joliet. Mr. Wilmott told the Board that the enterprise was proceeding in a timely manner for a Spring 1993 opening, and that the vessel was in the fourth month of construction. He noted that the City of Joliet was anticipating the approval of permits from the Army Corps of Engineers for the construction of a boat basin. Mr. Wilmott stated that the total cost of the project would exceed \$32 million and that \$5 million had already been spent. He stated that the boat would consist of approximately 800 gaming positions. Mr. Mezera told the Board about various municipal projects that were underway in the City of Joliet in anticipation of

the opening of the enterprise. The Chairman asked for discussion and recognized Member Zaransky.

Mr. Zaransky asked several questions concerning the status of the original application submitted by Mr. John Q. Hammons, the approved applicant. Mr. Zaransky noted that Harrah's had filed an application to be a supplier of gaming management and to purchase an ownership interest that the Board had not yet approved. Mr. Wilmott agreed with Mr. Zaransky's assessment and stated that Harrah's had signed a partnership agreement with Mr. Hammons making Harrah's the 80% owner of the enterprise.

Mr. Zaransky returned to his questions concerning the changes in the enterprise from the original approved application. In response to questions, Mr. Wilmott told the Board that the hotel and conference center, the retail, commercial and specialty shops as well as other originally proposed facilities had all been eliminated from the plans of the owners. Mr. Wilmott additionally told the Board that the originally proposed two vessels with capacities of 1500 and 1200 had been changed to one vessel with a capacity of 1200 and that the anticipated number of new jobs was reduced from 1500 to 500 - 600.

Mr. Mezera told the Board that the City of Joliet had never received any commitment from the applicants for any of the original projects and that the City of Joliet was not raising any objection to any of the changes. Mr. Zaransky responded that the Gaming Board had relied on the contents of the original application in finding the application suitable of licensing.

Mr. Zaransky and Mr. Johnson asked several questions concerning the financial structure of the enterprise. The administrator asked Mr. Wilmott if the contribution of \$6 million from Mr. Hammons was in the form of cash or a valuation of the license. Mr. Wilmott was unable to answer the question.

Mr. Johnson asked that staff prepare a report comparing the original application to the proposal that was now being put before the Board. He noted that significant changes had occurred requiring Board approval.

Mr. Vickrey asked why Mr. Hammons chose not to go forward with the original application. Mr. Wilmott responded that the reason reflected Mr. Hammons' financial resources and Harrah's expertise in the casino industry. He later revised his statement to reflect that Harrah's financial and human resources were greater than Mr. Hammons' and that he was not suggesting Mr. Hammons was financially unstable.

Mr. Johnson stated that the discussion demonstrated the need for clear standards to be applied to all applicants whenever any change to an application was being contemplated by the enterprise.

Mr. Mezera stated that all commitments made to the City of Joliet by Harrah's were being honored and that he hoped the Board realized how important the project was to the City of Joliet. There was no further discussion.

The Chairman next recognized Empress River Casino Corporation.

Mr. Jerry Turk appeared on behalf of the enterprise and told the Board that the Empress began operations on June 17, 1992 and for the first ten days, had run reduced passenger loads. They held their grand opening on June 27, 1992. He noted that Empress had begun its full operations on Sunday, June 28,

1992. Mr. Turk stated that the management was pleased with results that had occurred. The Chairman asked for discussion.

Mr. Johnson asked questions about the content of Empress' advertising. Empress had been advertising that wagers of \$5 to \$2000 would be accepted. Mr. Turk responded explaining the reasons for the ad's content. Mr. Vickrey commented that he had attended the grand opening and complimented the enterprise.

The Administrator reported to the Board that pursuant to the Board's authorization, staff had conducted a final practice gaming excursion. He stated that the excursion had been successfully completed and a temporary operating permit had been issued. He requested the Board to approve final licensing.

Mr. Zaransky moved that the application received from Empress River Casino Corporation be approved as the holder of an Owner's License. Mr. Chamblin seconded the motion. The Chairman called for the yeas and nays.

The motion was approved unanimously by voice vote.

Mr. Zaransky next asked questions concerning junkets and tour operators. Mr. Turk responded that the Board should reserve the right to require licensing of any person or business, but for the most part businesses did not need to be licensed. Mr. Turk further stated that he believed that junket operators should be licensed. Mr. Vickrey asked a question about future availability of automatic teller machines aboard the vessel. Mr. Turk responded that issues concerning branch banking restrictions were being studied and would hopefully allow placement of such machines aboard the Empress in the near future.

The Administrator asked Mr. Turk to discuss a definition of junketeer. Mr. Turk responded in general terms. There was no further discussion.

The Chairman next recognized Jo Daviess Riverboat Joint Venture.

Mr. Joe Duelman appeared representing the applicant and told the Board that the Silver Eagle had been operational since June 18, 1992. The Chairman asked for discussion.

The Administrator reported to the Board that pursuant to Board authorization, staff had conducted a final practice gaming excursion. He stated that the excursion had been successfully completed and a temporary operating permit had been issued. He requested the Board to approve final licensing.

Mr. Vickrey moved that the application received from Jo Daviess Riverboat Joint Venture be approved as the holder of an Owner's License. Mr. Chamblin seconded the motion. The Chairman called for the yeas and nays.

A point of order was raised by a member of the audience who alleged he was representing the City of Galena and had requested, in writing, to speak to the Board concerning this application. The Chairman explained that a letter had been received the day before the Board meeting and the request had been taken under advisement and would be scheduled as an agenda item at a future meeting. The Administrator reviewed the sequence of events concerning receipt of the letter and urged the Board to proceed with the meeting. All Board members then reviewed the letter and noted the letter had been written on blank paper. The Board could not verify that the City of Galena was requesting any individual to represent them. Mr. Zaransky further noted that the issues raised in the letter

were out of order as they described a disagreement between the City and the licensee in which the Riverboat Gambling Act did not empower the Board to intercede. Without objection, the Chairman called the previous question.

The motion was approved unanimously by voice vote.

The Chairman next recognized Southern Illinois Riverboat/Casino Cruises, Incorporated.

Mr. David Fishman and Michael Ficaró appeared on behalf of the applicant. They told the Board that construction of a vessel was on schedule and that the hull would be floated during the first week of August. He detailed that a second vessel which would serve the site with restaurant and meeting facilities had been moved to Paducah, Kentucky and was in the process of being retrofitted for those purposes. Retrofitting was due to be completed in October. Construction on parking lots was underway and permits for the construction of a 100x600 foot harbor had been obtained from the Army Corps of Engineers.

Mr. Fishman commented on the issue of junketeers and tour operations. Mr. Fishman stated that licensing tour operators would greatly restrict the ability of an enterprise to offer tour packages at reduced rates and had no relationship to gaming. He noted that junketeers held a different relationship with boat owners and were the recipient of compensation from the amount of gaming occurring from those persons brought to the boat by the junketeer. Mr. Friedman asked clarifying questions on the subject and noted that in conducting a review of the issue that the industry would be consulted.

Mr. Fishman told the Board that the financial plan had been completed and that the project was 100% financed. The Chairman called for discussion.

Mr. Zaransky asked questions concerning the financial plan and noted that it appeared that one person had obtained a 20% holding. Mr. Fishman responded that the person who had invested would own 14-20% of the parent company stock, not Southern Illinois Riverboat. Mr. Ficaró stated that while the rules would not require the individual to file a disclosure statement, that in the offering itself, investors were told that they could be required to file disclosure statements for the approval of the Board. Mr. Zaransky stated that at the previous meeting, the discussion had resulted in the request for the individual to file a personal disclosure application. Mr. Friedman noted that while the subject of filing had been discussed, there was no final decision on that question. He stated that staff had reviewed the prospectus to make sure that it stated that the Board could require any individual to file a personal disclosure but that staff had not requested the individual to file.

Mr. Vickrey asked questions concerning the status of land based facility construction. Mr. Fishman responded in detail and explained what projects were underway. Mr. Fishman also noted that discussions with a potential developer of a hotel had taken place. There was also discussion concerning the status of the boarder dispute between the States of Kentucky and Illinois which was pending action before the U.S. Supreme Court. Mr. Fishman estimated that operations would commence in March 1993. There was no further discussion.

The next item of business were status reports of licensed operators. The Chairman first called Alton Riverboat Gambling Partnership.

Mr. J. Thomas Long appeared on behalf of the licensee and told the Board that the partnership currently employed 587 persons with an annual payroll of

\$12 million. He stated that the City of Alton would receive between \$2.5 and \$3 million and that local merchants were used wherever possible in provided over \$6 million in purchases of supplies. Mr. Long stated that the partnership was in the process of reviewing future needs of the enterprise which would include securing a new vessel and shore facilities. He noted that the enterprise had paid \$6.8 million of debt with cash and that the company was financially strong through June 30, 1992. The Chairman called for discussion.

Mr. Zaransky asked whether Alton had experienced any impact from the beginning of operations of the Empress in Joliet. Mr. Long responded that Alton experienced very little attendance from the Chicago area.

Mr. Johnson asked whether Mr. Long felt it likely that Missouri would approve a referendum allowing casino gaming. Mr. Long responded that he felt the referendum would be approved. He noted that the Missouri proposal provided for an unlimited number of licenses which would have a substantial impact on Illinois operations but that whatever the outcome, the partnership would proceed in upgrading the operation.

Mr. Johnson asked questions concerning the earlier discussion on limiting debt/equity ratios. Mr. Long commented that the gaming industry was based on large capital investments but noted that the industry does not produce receivables or products to offset the initial investment. He stated that special attention should be directed toward whether cash flow covered debt service and accounts payable. Mr. Long said he would provide input to staff concerning the issue. There was no further discussion.

The Chairman next recognized Greater Peoria Riverboat Corporation.

Mr. Tom Moore and Mr. Juri Basens appeared on behalf of the licensee and updated the Board on operations noting that tax receipts of \$5.7 million and \$2.3 million had been realized by the state and local units of government, respectively. He state the enterprise had hired 701 employees with an annual payroll of \$14 million. Mr. Moore provided an update on the construction of the permanent docksite in East Peoria. Mr. Basens told the Board that construction of a Hampton Inn adjacent to the permanent docksite had begun. The Chairman called for discussion.

Mr. Vickrey stated that he was pleased that the enterprise had begun to complete the permanent docksite. Mr. Zaransky asked whether the Empress had impacted the Peoria operation. Mr. Basens responded that attendance was lower in the month of June, but that additional data was needed before he could respond to the question with accuracy. There was no further discussion.

The Chairman next recognized Rock Island Boatworks, Incorporated.

Mr. Michael Ficaro appeared on behalf of the licensee and told the Board that the Casino Rock Island had hosted over 65,000 passengers since commencing operations on March 11, 1992. He stated that the operation had 650 employees, (of which 620 were Illinois citizens), with an annual payroll of \$10 million. Mr. Ficaro stated that \$13 million was being invested in the City of Rock Island by new investors and businesses. He stated that the company had reduced its debt/equity ratio to under 50%. The Chairman called for discussion.

Mr. Johnson asked for comment concerning the closing of two Iowa operations. Mr. Ficaro responded that it appeared to be a decision based on local market conditions and a shifting of patrons from Iowa operators to Casino



Rock Island. Mr. Friedman noted that it appeared Mr. Ficaro's observations were accurate, but did not know whether the overall attendance had risen or dropped. Mr. Johnson asked whether placing a license in Moline would have a negative impact on the Rock Island operation. Mr. Ficaro declined to respond. Mr. Friedman stated that he had specifically requested all interested parties not to discuss the matter so that all parties would be heard at a more appropriate time.

Mr. Zaransky asked Mr. Ficaro to submit additional information concerning those individuals patronizing Casino Rock Island and from where they were coming. Mr. Ficaro responded that 85% of patrons lived within 60 miles of Rock Island. There was no further discussion.

Mr. Vickrey moved that pursuant to Illinois Revised Statutes Chapter 102, Section 42.02 (g), (h) and (k), that the Board retire to Closed Session. Mr. Zaransky seconded the motion. The Chairman called for the yeas and nays.

The motion was approved unanimously by voice vote and the Board retired to Closed Session at 2:07 P.M.

The Illinois Gaming Board reconvened in Open Session at 3:55 P.M.

The first order of business was approval of the minutes of the Regular Board Meeting of May 14, 1992. Members Zaransky and Vickrey offered changes to the minutes. Mr. Chamblin moved that the minutes of May 14, 1992 be approved as corrected. Mr. Vickrey seconded the motion. The Chairman called for the yeas and nays.

The motion was approved unanimously.

The next order of business was the approval of minutes of the Special Meeting of June 16, 1992. Mr. Zaransky moved that the minutes be approved as submitted. Mr. Vickrey seconded the motion. The Chairman called for the yeas and nays.

The motion was approved unanimously by voice vote.

The next order of business was Other Business. The Chairman recognized Member Zaransky.

Mr. Zaransky moved that the Illinois Gaming Board hold a Special Meeting on July 28, 1992 for the sole purpose of deciding whether to revoke the finding of preliminary suitability with respect to the application received from Des Plaines Development Corporation and that the Administrator be instructed to notify all interested parties of the Special Meeting with particular attention to notifying Mr. John Q. Hammons and requesting his appearance. Mr. Vickrey seconded the motion. The Chairman called for the yeas and nays.

The motion was approved unanimously by voice vote.

The next order of business concerned the approval of the staff report with respect to employee licensing.

Mr. Chamblin moved that the Board approve the staff recommendations concerning approval or denial of applications received for employee licenses for the Alton Belle. Mr. Vickrey seconded the motion. The motion was amended to include employee licensing applications received for persons employed for all

other enterprises. The Chairman called for the yeas and nays on the amended motion.

The motion was approved unanimously by voice vote.

Mr. Zaransky moved that the application received from Mr. James Scott Connors to be an investor in J. Connors Group which is an owner/investor of the Alton Riverboat Gambling Partnership be approved. Mr. Vickrey seconded the motion. The Chairman called for the yeas and nays.

The motion was approved unanimously by voice vote.

Mr. Johnson requested that staff be instructed to develop specific guidelines for all entities to request Board approval of all changes to an application after a finding of suitability has been issued by the Board and that such guidelines contain time limits for submission and that the proposed guidelines be submitted to the Board for consideration at the next Regular Meeting of the Board. Mr. Friedman responded that staff would comply and circulate a draft to the Members before the next meeting.

There being no further business to come before the Board, Mr. Zaransky moved that the Board stand adjourned to July 28, 1992. Mr. Vickrey seconded the motion.

Without objection, the Illinois Gaming Board adjourned at 4:05 P.M.

Respectfully submitted,

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James A. Nelson  
Secretary of the Board